17 May 2021

Sebastian Roberts
General Manager
Australian Energy Regulator

Sent via email

Dear Mr Roberts,

Submission to Project EnergyConnect revised contingent project application

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the revised contingent project applications for Project EnergyConnect (PEC) from TransGrid and ElectraNet.

Given its low net benefit and escalating costs, PIAC does not believe PEC is an investment in the long-term interests of NSW consumers. PIAC opposes PEC proceeding under the current regulatory framework, in which costs and risks are imposed on consumers located in the region of transmission infrastructure irrespective of whether they will receive a net benefit.

Consumers in NSW and SA are not the sole direct beneficiaries of this project, and should not carry all the costs. Consumers are also not best-placed to manage or carry the cost of any underutilisation of the asset.

Benefits from the project accrue to: the owners and investors of generation projects in NSW, SA and Victoria in the form of access to market; local communities in the form of associated jobs; and the wider community in the form of emissions reduction. These benefits should not be considered consumer benefits, and should be excluded from any cost-benefit analysis relative to consumer costs.

Recovering costs from parties on a beneficiary-pays basis, and ensuring all groups of consumers who are exposed to any costs receive a material net benefit, must be required for large transmission projects to proceed. PIAC supports urgent regulatory reforms to this end, and delaying approval of PEC if needed.

The net benefits to consumers from PEC

The net benefits from PEC remain uncertain for a project of its size. As the AER noted in its Preliminary Position, the "net benefits remain finely balanced and there is a significant zone of uncertainty associated with the benefits."[1]

[1] AER, *Preliminary Position on TransGrid Contingent Project*, Dec 2020, 7.

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In the PACR stage of the RIT-T, the project was estimated to provide net benefits of $924 million. This was subsequently revised down by the AER to $269 million in its review of the RIT-T. The contingent project application submitted by ElectraNet and TransGrid in 2020 found that this had diminished to just $148 million.

In this revised application, ElectraNet asserts recent developments would increase net benefits from PEC between $140 and $290 million.[2] This increase in modelled benefits, if accurate and does eventuate, still represents a relatively small improvement in the overall value PEC would represent to consumers and other beneficiaries. Further, this estimate is necessarily based on various assumptions, which while "firm enough to be included in a RIT-T assessment,"[3] are not assured.

For a project of this size, PIAC expects the modelled benefits to be overwhelmingly positive and hence robust to optimistic assumptions in benefit modelling. Without this, any deviations from the modelling (such as cost over-runs and changes to generation forecasts or policy assumptions) mean PEC is at high risk of not providing any net benefit to consumers.

Benefit sharing from PEC

Many of the benefits of the construction and operation of PEC do not accrue to electricity consumers and, under the beneficiary-pays principle, should not be recovered solely from consumers' through NUOS charges. PEC is modelled to deliver other, non-energy benefits such as regional jobs and economic growth, increase connection capacity for generators, and emissions reductions.

The costs for PEC would be more efficiently and fairly recovered by socialising some costs through governments and by recovering some costs from connecting generation projects. Funding a portion of PEC costs from governments allows these costs to be recovered through a more progressive framework than electricity bills (which can often be regressive and disproportionately impact those least able to afford bill increases). PIAC has also developed a risk and cost sharing model that provides a clear and transparent framework for recovering a share of network costs from generation projects as they connect.[4]

PIAC has raised concerns throughout the RIT-T process that the primary beneficiaries of PEC are in South Australia while the majority of costs would be borne in NSW. In 2018 we noted:

> … analysis done by The Energy Project, the expected benefits from the preferred option is split approximately 60% to SA consumers and 40% to NSW consumers. This is in contrast to the costs which are borne 27% by SA and 73% by NSW consumers.[5]

This misalignment between where the benefits are modelled to accrue and where costs will be recovered means even if PEC presents a net benefit to consumers in the NEM overall, NSW consumers are expected to be at a net loss. PIAC recommends revisiting the current inter-regional transmission cost allocation to more fairly share costs between NSW and SA consumers from Project EnergyConnect. The current framework (involving IR-TUOS and settlement residues) is generally unsuitable to address significant misalignment of costs and

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2 ElectraNet, *Project EnergyConnect Review of economic assessment*, Mar 2021, 2.
3 Ibid.
4 It shares risk between consumers through the RAB and a contestable transmission investor (who is not necessarily the incumbent TNSP) while costs are shared between consumers via normal arrangements and generators as they connect to the REZ. This model is described further in PIAC, *Submission to Central-West Orana REZ access scheme issues paper*, May 2021, 18-22.
5 PIAC, *Submission to the SA Energy Transformation RIT-T PADR*, August 2018, 2.

benefits between NEM-regions and is better suited to managing smaller, seasonal changes in net power flows across regions.

Recommendation 1

PIAC recommends the AER conduct thorough analysis to interrogate the quantum and sensitivities for the net benefits to electricity consumers from PEC. PIAC recommends this include a breakdown of benefits to consumers in NSW and SA separately.

Recommendation 2

PIAC recommends the AER examine and propose alternative funding models to ensure any costs borne by electricity consumers for PEC are in their long-term interests.

TransGrid's revised capital forecasts

PIAC does not support TransGrid's revised proposal. While it represents a minor reduction from its initial proposal, it is still $172 million (10.1%) above the AER's preliminary position.

PIAC also does not support TransGrid's proposed increased allowance for land and easement costs. We consider a case has not been made to provide an allowance beyond the AER's preliminary position based on the average actual margin of land TransGrid has already acquired along the route.

PIAC agrees with TransGrid that being able to negotiate with landholders to acquire the necessary property and easements for PEC is preferable to compulsory acquisition of property. However, we question whether it is appropriate for NSW consumers to bear costs above market price for such negotiated outcomes given the primary direct beneficiary of this relationship-building approach is TransGrid.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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